



State of Vermont
OFFICE OF THE GOVERNOR

Governor James H. Douglas
2010 Budget Address
January 19, 2010

Mr. President, Mr. Speaker, members of the General Assembly, distinguished guests, my fellow Vermonters:

In the late fall of 1927, the skies opened and a great flood devastated our state. Vermont's transportation, industrial and agricultural infrastructure was washed away over two long days.

On a visit back home less than a year after the flood, President Coolidge noted "the splendid recovery." He remarked that "Transportation has been restored. The railroads are in a better condition than before. The highways are open to traffic for those who wish to travel by automobile."

The Great Flood of 1927 was a defining moment in our state's history not just for the magnitude of destruction, but for the effort to rebuild that followed.

Today, the crisis we confront is economic: a Great Recession. For two long years, Vermonters have been hard hit by this downturn and the foundation of our economy is in need of rebuilding. That work is slowly beginning on factory floors and in offices, at home businesses and on construction sites. But progress is fragile and there is much hard work ahead.

Just as Vermonters did more than 80 years ago, we must rebuild better than before. This year we will be judged not just by our ability to pass a balanced budget, but by whether that budget prepares our state and its people for a stronger tomorrow.

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The principal reason for our budget shortfall is the economic challenge facing Vermonters. In just over a year, more than 10,000 jobs have been lost and last year median family income fell nearly \$2,000 from the year before. Although Vermont's unemployment rate is among the lowest in the nation, our workforce is shrinking and too many are underemployed. As a result, state revenues are \$20 million below those of 2006 and a staggering \$100 million below where they were at the height of the economic bubble in 2008.

While Vermonters have found it harder to pay the bills, General Fund programs have seen unsustainable increases and new pressures. Demand for human services will grow by \$50 million, pension contributions are projected to increase by \$29 million, and \$75 million in federal recovery funds relied on for this year are no longer available. Without corrective action the shortfall in the fiscal 2011 General Fund will be \$150 million.

With revenues not expected to return to pre-recession levels until 2013, our fiscal crisis extends far beyond today. Without sustainable reductions, the fiscal 2012 shortfall will balloon to over a quarter billion dollars – more than we spend on economic development, environmental protection, public safety and higher education combined.

To protect the most vulnerable now and in the future, we must make sustainable reductions to break free from the dangerous cycle of managing deficits year on end. To make our economy more competitive and state government more affordable, we must invest in job creation to grow our tax base and find efficiencies to reduce cost. And to preserve the greatness of Vermont, we must protect that which sets us apart – our safe communities and our cherished natural environment. The budget I deliver today meets each of these objectives.

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This year, we must employ new thinking and embrace creative approaches. It is critical to move ahead on the agreement between legislative leaders and my Administration to identify millions in sustainable savings through “Challenges for Change.” While I understand that some may be skeptical, we have little choice but to ensure this effort succeeds. If the targets are not met, the money must be found with deeper reductions to state services. But I am confident that we will accomplish our goal to focus limited resources on the most critical needs of Vermonters. I am accounting for all \$37.8 million outlined in these challenges in my fiscal 2011 budget and expect that the annual savings will be even greater in years to come.

The agreement to set the challenges into law this month will achieve savings sooner rather than later and allow us to move ahead to address the remaining \$112 million General Fund shortfall. Doing so will require looking to those areas of government that are growing the fastest and consuming the greatest resources – human services, pensions and education.

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We have long measured our compassion by how we help neighbors in need; when the hour is dark, the hearts of Vermonters have always burned bright. We are rightly proud of our strong human services network – a gold standard among states.

Through Choices for Care, Catamount Health, the Blueprint and other innovative health and human services reforms, we’ve built a solid foundation that is helping vulnerable Vermonters find a path to health, employment and independence.

But we cannot deny that the sharp growth in demand for human services in recent years threatens the overall stability of our budget. Nearly one-third of our population receives services from the State. Next year, the Medicaid system alone will serve 172,000

Vermonters. Since the beginning of the decade, overall spending for human services has more than doubled – a growth rate of three-and-a-half times inflation.

Even last year, as we struggled to fill a significant budget shortfall, total human services spending grew by \$100 million. Much of that increase was funded through the use of one-time federal money.

While there has been discussion about a second recovery package or brief extensions of Medicaid dollars, we cannot place the sustainability of our programs at the whims of Washington.

I am not counting on additional federal assistance in my budget. But even if new aid does eventually come our way, we must recognize that federal recovery funds will not flow forever, nor should they. We must take responsibility for our own programs and begin to step down our funding levels gradually and responsibly. By starting now the difficult process of realigning human services spending within currently available resources, we will spare programs from devastating cuts when the federal spigot is inevitably turned off.

Any additional funds from Washington must be used to transition to a more effective, efficient and affordable state government, while investing in one-time efforts to create jobs and grow our tax base.

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The most difficult budget choices will be in the Agency of Human Services. This is both because of its sheer size – the largest percentage of the state budget – and because these cuts will unquestionably have an impact. I propose General Fund changes of \$53 million in human services – of which approximately one-quarter will be direct service reductions for beneficiaries. These choices are necessary in order to sustain critical programs and benefits today and in the future.

My human services budget is guided by three key principles. First, we strive to protect the most vulnerable Vermonters by asking some beneficiaries and providers to carry a greater share of costs. Next, we seek to adjust services incrementally for the broad population rather than cut out some groups entirely. Finally, in all decisions, we focus on helping people achieve better outcomes, not safeguarding the status quo.

The impacts of the recession – continued unemployment, reduced earnings and the housing crisis – have increased the number of Vermonters seeking assistance. That's why my budget funds caseload increases, ensuring that Vermonters can access essential services. It also supports inflationary increases for the 39 Vermont nursing homes that accept Medicaid payments, and funds the growing needs of those with developmental disabilities who depend on state support to ensure their health, welfare, safety and full community inclusion.

Our focus on meeting these critical needs necessitates major adjustments and tough choices elsewhere in the Agency. I propose eliminating over 20 grants to direct service providers within our system and reducing many more, including those that I have supported and advanced over the years: Housing and Supportive Services grants that fund

wellness programs in senior housing settings; the Neighbor-to-Neighbor Americorps program; the senior companion program; and mentoring, to name a few.

I propose tightening eligibility requirements for the attendant services program to include an income and asset test. This is an important program that supports independent living for disabled adults who need assistance with daily activities and we must ensure its sustainability into the future.

In order to maintain benefits for low income families served by the Reach Up program, responsible reforms are needed, such as removing recipients from the program when they chronically refuse to complete their family development plan or meet work requirements. Further, I propose once again establishing a time limit for Reach Up recipients who do not meet hardship criteria; a five-year limit is very generous at any time, but particularly now in the face of our fiscal challenges.

My budget also includes a series of adjustments focused on providers, including: targeted reimbursement rate reductions for home health agencies; across-the-board grant and rate reductions for smaller providers working with the Department for Children and Families; and increased receipts of \$7 million from hospitals by keeping their tax rate at the same level as last year.

Further, to uphold our strong commitment to alcohol and drug abuse programs, which I've long championed, we must better align services with needs. Because we have seen underutilization of some inpatient adolescent services, I propose funding them on an as-needed basis with a corresponding reimbursement rate reduction.

We know that these proposals will be a struggle for some organizations that are already adjusting to reductions made last year. As such, we are committed to working with non-profits to reduce administrative burdens that detract from their ability to deliver efficient quality care.

While we make these difficult decisions, we must continue our investment in our innovative Vermont Blueprint for Health. That's why my budget supports the continued expansion of this successful program, with the goal of having it available in all communities within two years. I also call on our private insurance partners to make this goal achievable. The Blueprint is our best hope for slowing the growth in health care spending while improving the quality of health care received – something that all Vermonters want and need.

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Vermont's Medicaid program is among the most generous in the nation. We can all be proud of efforts to expand coverage, because better health outcomes are achieved when people get care before they become sick. But maintaining coverage for the greatest number of people will mean scaling back benefits for some.

Throughout the summer and fall state workers were asked to take a fresh look at areas of government where we could do better. One such Tiger Team considered improvements to our Medicaid system. After reviewing ten states that, like Vermont, provide generous services, the team saw that Vermont sets few limits on utilization. For example, we pay for an unlimited number of emergency room visits. Capping ER visits that do not result

in hospitalization at 12 per year will bring Vermont more in line with peer states – saving money to preserve this benefit for everyone in the system.

Another example is the adult dental benefit, now set at a maximum \$495 per year. By reducing the cap to \$200 per year, we will save over a half million dollars in the General Fund, without eliminating this important benefit altogether.

Insuring more Vermonters is the goal of Catamount Health. During this economic downturn, when many other states have seen an increase in uninsured residents, Vermont's numbers have remained steady. In fact, during the past two years, we've succeeded in lowering our uninsured rate, which is now among the lowest in the nation. To make certain that Vermonters have access to affordable, quality care, we need to protect Catamount by making it sustainable. This will require a significant increase in deductibles, which will also more closely align our program with industry standards.

In our Medicaid programs, most premiums have not been increased since 2006. Modest increases next year for a number of these programs are necessary to protect them during tough times.

Finally, this budget will increase our focus on fraud detection and program integrity – ensuring that those applying for benefits meet the income and asset requirements. By more closely monitoring provider billing, we will ensure that services are paid accurately. And by making small, but important, investments now, we can curtail inappropriate usage to realize savings and preserve programs for those with real needs.

I understand that these changes will generate considerable debate, but I've seen the alternatives and they are much worse. These decisions are responsible without being draconian and they put our safety net on a sustainable path for years to come.

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Our pension systems are likewise in crisis. If we do not change course, future Legislatures will be unable to keep our retirement promises to state workers and teachers. Without reform, the total required contribution from all funds for the two systems will grow by \$32 million – an incredible one-year increase of 43 percent. In the General Fund, pension contributions are projected to consume 8 percent of available resources next year, squeezing out other priorities. Moreover, the unfunded long-term liabilities in the systems exceed \$2 billion and, if not addressed, will threaten benefits and state budgets for years to come.

Last year, this Legislature established a Commission to review these systems and make recommendations to safeguard their solvency while holding the State's pension contribution to a reasonable three-and-a-half percent growth rate.

I want to commend the Commission – Treasurer Spaulding in particular – for its hard work and leadership. Their recommendations to adjust retiree age, final benefits and the annual contribution are responsible approaches, and as such I include them in my budget.

Although these changes will be difficult, inaction would be irresponsible. It is important to remember that while the retirement age will increase and employees will be asked to contribute more, this is necessary to protect a guaranteed benefit. Retired state

employees and teachers are assured pensions and subsidized health care for life – something most Vermonters do not receive.

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The pension system is a problem of not just how much we pay, but also of who pays. Currently, the teachers' retirement system is funded entirely by the General Fund, despite the fact that the salaries used to calculate pensions are set at the local level.

Teacher retirement, like salaries or student transportation, is an education expense, pure and simple, and should be borne by the Education Fund. But if the expense of the retirement system is transferred without offsetting cuts to education spending, it will raise property taxes. Let me be absolutely clear: that is not what I am proposing.

Instead, as part of my education reforms, I propose to phase teachers' retirement costs into the Education Fund over four years. With the reforms I have proposed to normalize the student to teacher ratio, and by asking teachers to pay 20 percent of their health care premiums, the additional expense of teachers' retirement is covered. In fact, my package of education proposals will cut property tax rates by one cent next year – rather than require a two-cent increase if no action is taken.

Those who attempt to parse my proposals to justify a claim of a tax increase should be reminded that by advocating for the status quo they are, in fact, supporting a \$59 million property tax increase. That is a burden Vermonters simply cannot afford.

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In the General Fund, \$38 million in government efficiency challenges, \$53 million in human services adjustments, \$25 million in pension changes, \$10 million in education reforms and \$5.5 million in labor savings from the contract ratified by state workers bring us a long way to covering our \$150 million shortfall. But there are other reforms we must undertake to balance the fiscal 2011 budget and deliver sustainable savings for taxpayers.

One such effort is an evaluation of the 300 boards and commissions that regulate or advise on everything from world trade to well drilling. While most provide a valuable service, some have not met for years while others share similar missions and constituencies. I asked one of the Tiger Teams to consider efficiencies and savings throughout this system. As a result of their recommendations, I will present a plan to the General Assembly to abolish, consolidate or otherwise modify as many as 50 Boards and Commissions.

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Just as we focus our efforts within state government, we must also seek efficiencies from those entities that receive a large share of their budgets from taxpayers. Our affordable housing programs provide critical services to Vermonters of various income levels and stages of life. Assuring that the people of our state can meet basic housing needs has long been a priority of mine. That's why I asked a Tiger Team to look at ways to enhance our affordable housing efforts, while making our statewide network sustainable.

For a small state, we have a surprising number of entities devoted to affordable housing. At the state level, the Vermont Housing Finance Agency, the Vermont Housing and Conservation Board, the Vermont State Housing Authority, Housing Foundation Incorporated and the Department of Economic, Housing and Community Development all share an affordable housing mission. Frequently these state level entities negotiate with one another to channel separate investments into the same projects. And with 130 employees, managed by four separate boards, consisting of 37 board members, three executive directors and a commissioner, I believe, as the Tiger Team found, that there are real opportunities to do more for affordable housing with greater efficiency.

For instance, the staffing costs for these entities amount to \$9 million. By redesigning the system to achieve just a 10 percent savings in personnel costs, \$900,000 annually could leverage over \$20 million in new affordable housing investments. I have asked Commissioner Brooks to convene the stakeholders to look into opportunities, such as this, to improve our system.

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As we strive to bring our budget back to sustainable levels, investments must continue in Vermont's infrastructure that support existing industries and spur economic growth.

During the past seven years we've increased our commitment to transportation – catching up after decades of underfunding. I propose reducing the raid on the Transportation Fund by an additional \$3.5 million next year, directing that money to municipalities to support our town highway program. I'm proud that during my tenure we will have restored nearly \$68 million to the Transportation Fund for investment in our roads, bridges and culverts.

We have worked together, on a bipartisan basis, to strengthen our commitment to transportation. Between this year and next, Vermont will spend more than \$400 million paving our roads and fixing our bridges – an unprecedented effort.

Last year, we increased our overall transportation budget by \$140 million. While much of that growth was a result of the federal stimulus act, we made the most of the opportunity. In spite of, or perhaps because of, our long winters and short construction season, Vermont was a national leader in the quick deployment of stimulus dollars.

We will build on our aggressive efforts by increasing our transportation investment by \$14 million more next year. My budget includes \$113 million for bridge and culvert construction and maintenance – a 20 percent increase over fiscal 2010. And in the last four years, we have increased spending on preventative maintenance from \$8 million to over \$35 million in this budget.

As in other areas of state government, our commitment should not be measured by funding alone. Because of the "Road to Affordability" we are deploying these transportation resources more efficiently and with a better return on investment. By doing a better job of keeping up with work today, we are saving money in the future.

Our transportation infrastructure is, quite literally, the foundation of our economic prosperity. A safe and efficient system of roads and bridges is central to the flow of goods and commerce and to a stronger economy. I was proud to sign the bill you just

passed removing heavy trucks from our town and village centers by allowing them access to our interstate system. At a time when our traditional industries need a boost, truckers, loggers and manufacturers will benefit from this pilot effort, saving time and money, as well as improving our environment.

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Good environmental practice is smart fiscal policy. The Green Mountain State continues to be a leader in energy efficiency and the use of alternative sources of power – saving Vermonters money and contributing to a cleaner environment. Our efforts have been bolstered by more than \$30 million from the federal stimulus act – money appropriated for purposes of the Clean Energy Development Fund. But to date \$17 million has not been allocated to projects.

Because it is critical to get this money out the door quickly to support our growing renewable energy market and create jobs and because it is important that state government be an example, I propose redirecting \$9 million immediately to our state buildings and parks. To save taxpayer dollars and make needed efficiency improvements at the Waterbury State Office Complex, \$6 million will be used to demonstrate the full potential of these investments. Another \$2 million will equip the new Bennington state office building and courthouse with a geothermal heating and cooling system. Every year in Bennington we will use 30,000 fewer gallons of oil, conserve 510,000 kilowatt hours of electricity and avoid emitting 640 tons of carbon dioxide into the atmosphere – not to mention save \$175,000 for taxpayers. The remaining funds will be used to make improvements at our state parks, where exciting efficiency and renewable energy projects are already underway.

These efforts are part of an \$80 million Capital Bill, which also includes \$25 million to upgrade and rehabilitate our facilities to modernize state government. Our capital investments will employ thousands of tradespeople across Vermont and are critical to maintaining high quality services as we confront enormous fiscal challenges.

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When opportunities arise to improve state programs and services through the use of technology, we cannot blink. Efforts to streamline processes and functions across state government not only save money; those who need assistance benefit as well. Every visit to a different office and every minute spent filling out paperwork is time away from caring for a child or searching for a job. By creating one central point of entry, we can make it easier for Vermonters to navigate the bureaucracy and receive assistance to get to self-sufficiency.

That's why, as part of my capital bill, I propose \$8 million in information technology investments to help streamline state government. For state employees, new tools will allow them to spend more time delivering services and less time filling out paperwork. For taxpayers, costs will be reduced through efficiency and better coordination. And for those accessing programs, a new MyVermont portal will serve as a virtual kiosk – one-stop shopping – where information can be entered to immediately access the appropriate services anywhere in state government.

By redesigning our technological infrastructure we can make better use of our limited resources. And because of this effort we will be on course to achieve a paperless state government.

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Today, Vermont is facing the convergence of two demographic challenges – slowing growth rates and an aging population. These trends threaten to erode our workforce and our tax base, making it harder to support the generous level of services we expect.

The promise of stable employment, good wages and vibrant communities is what will ultimately keep young Vermonters here and attract working families to our state. That's why, especially now, we must strengthen our investments in next generation technologies, economic development and affordable higher education.

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Since we embarked on the ambitious e-State initiative three years ago, much progress has been made. Today, more Vermonters are able to access technologies that will improve their health, expand their knowledge and help them compete for new employment. But our work will not be finished until those opportunities are available to every Vermonter in every corner of the state.

To make more progress toward our goal, we will leverage already approved bonding authority and private capital to build “middle mile” fiber capability to schools, hospitals and other public institutions by allocating \$5 million in Capital funds to the Vermont Telecommunications Authority.

This investment will be complemented by over \$3 million in federal stimulus funds for the “Backroads Broadband” program – defraying the initial cost for those in the hardest-to-reach places and creating an incentive for providers to bring service the last mile.

I thank Senator Illuzzi and the members of the Senate Economic Development Committee, as well as the House Commerce Committee, for their commitment to quickly move a jobs bill with funding for this broadband program.

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Other aspects of that bill are just as critical to Vermont's economic future. Restoring funds for workforce training, helping small companies access needed capital and supporting businesses in our tourism sector are important investments. And so is removing the Vermont Employment Growth Incentive cap to help Vermont compete and attract new jobs.

But the most significant action we can take to spur job creation and broaden our tax base is to make our tax climate more competitive. Policies that influence individuals to change their residency to other states, that keep employers from hiring and that discourage a business from locating in Vermont altogether will ultimately make it more difficult to find a good job here and will lessen our ability to support state programs.

Sunsetting last year's capital gains changes and rolling back the estate tax increase – a

\$10 million impact on the General Fund – are prudent investments in a growing economy and more robust tax base. These changes are necessary to send a clear signal to employers and employees alike that Vermont is serious about competing for jobs in the post-recession economy.

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An investment in higher education is an investment in the promise of a more prosperous tomorrow. It must continue to be a priority even during these difficult times. The uncomfortable fact is that our institutions of higher learning are some of the most expensive in the country, with among the lowest levels of state support. Assuring that every Vermonter who seeks a post-secondary opportunity can afford it is a goal we must constantly strive to attain. And providing those opportunities is critical to the retention of our next generation and assuring that it has the tools, training and education for 21st century jobs.

As part of our effort I recommend a base increase for higher education with \$5.5 million shared among UVM, the State Colleges, and VSAC. I also propose restoring \$1.5 million of base funding to our Next Generation scholarships. And I am asking for \$2 million each in capital funds for UVM and the State Colleges for facility upgrades and other infrastructure needs.

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For over 200 years, Vermonters have been bound together by close communities and by our distinct love of this land. A shared commitment to a better tomorrow is rooted in our proud heritage. As we work to balance our budget and prepare our state and its people for a future of opportunity and prosperity, we must not forget that which sets us apart, that which defines who we are as Vermonters.

Preserving what is so special about this state begins with ensuring that our communities are safe and that each Vermonter has access to a fair and functioning system of justice. I want to again recognize the leadership of the Judiciary and the Commission on Judicial Operations for their efforts to make our system of justice sustainable, even in difficult financial times. I am including their recommendations in my budget.

A sound Judiciary is necessary to complement the important work of our state law enforcement professionals. These men and women work day in and day out, in dangerous situations, to keep us safe and secure. With 13 new troopers and an additional nine preparing to train, our State Police force will be at its highest levels in the past decade.

This year we will have a State Trooper assigned to every regional Special Investigation Unit, where they will work with local and county officers to bring to justice those who prey on our most vulnerable. And to further aid their efforts, we are moving forward with a state-of-the-art forensic lab, scheduled for occupancy this coming October.

I am proud that even during these tight fiscal times we have been able to increase our support for our law enforcement professionals, as well as other public servants working hard to keep us safe, such as our firefighters. That's why I continue to support fire

training efforts. All our public safety professionals deserve our deepest respect and thanks.

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Many tears have been shed as families bid their farewells to our brave men and women now being deployed overseas. We are proud of them, their patriotism, their valor, and their dedication to those ideals we hold dear. We must assure that their families receive the support they need during the long separation. We must also be fully prepared to provide for the needs of our troops when they return home. My budget provides the resources to keep our commitment to do both.

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Vermont is blessed with many natural gifts from our green mountains to our rolling, open farm lands to our lakes, rivers and streams. Preserving our natural environment is an obligation we have to the next generation. Clean waterways, healthy wildlife and vibrant forests are an economic, as well as environmental, imperative for our state.

Working with our federal, municipal and non-government partners, we have made an unprecedented commitment to Lake Champlain through the Clean and Clear program – investing more than \$50 million in efforts to improve water quality, leveraging an additional \$52 million in federal funding. We have worked to enhance the stability of streams and rivers, improved management of our vast network of dirt roads, protected and restored wetlands and limited pollution from construction site runoff.

The Agency of Agriculture has provided technical assistance to farmers to develop and implement soil-based conservation practices and nutrient management plans – preventing discharges from barnyards and fields. To continue this good work, I propose \$8 million in General and Capital funds to support our Clean and Clear priorities within the agencies of Agriculture, Transportation and Natural Resources.

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Our farmers are keepers of our unique landscape and protectors of our strong environmental ethic. While all Vermonters have struggled through this recession, farmers have been further stressed by a prolonged period of low milk prices. As part of the jobs bill, \$1 million should be dedicated to helping our agricultural community weather the storm this year.

The Farm to Plate initiative is working to foster growth in both the farm and food sectors. By directing \$100,000 of the Sustainable Jobs Fund appropriation to this initiative, we will increase access to healthy, affordable, local foods, while supporting our farm economy.

Ultimately, our agricultural industry requires the federal government to reform the antiquated milk pricing system, allowing Vermont farmers to compete fairly in the national market. I will continue to support the efforts of our congressional delegation and others who are working to deliver the reforms our farmers need.

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Of the eight budgets I have proposed, this is the most challenging by far. The magnitude of our shortfall demands new approaches and creative thinking. It calls for difficult reductions in worthy programs and a dedicated focus on the most pressing needs of our people.

But our purpose is not simply to patch together a budget for next year; rather our aim is to set our state on solid ground for the next generation. That's why we must continue to strive for a growing and vibrant economy – one that opens the doors of opportunity across our state. Now is not the time to look back and protect the status quo.

The budget I deliver today looks to the future by putting state government on a sustainable course, by investing in the potential of our people and by protecting that which makes this place so special. It is but one part of the effort to rebuild our economy and restore our prosperity.

From the depths of this Great Recession, we must find the courage to make difficult decisions, act boldly and lead fearlessly. We will not fail if together we renew our commitment to a stronger tomorrow.

God bless each of you and the great State of Vermont.

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